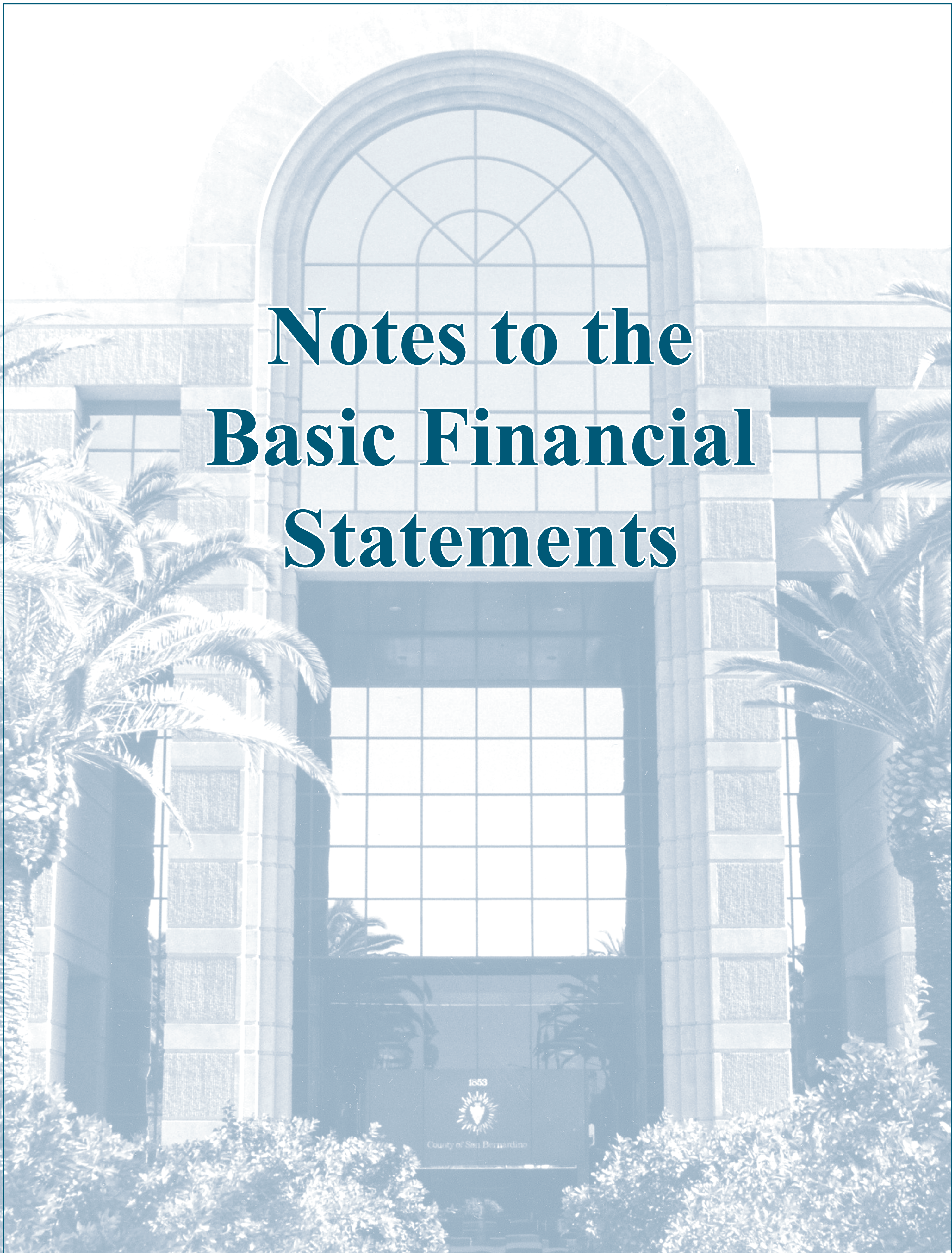
Notes to the Basic Financial Statements



NOTE 1 – THE FINANCIAL REPORTING ENTITY

(a) Reporting Entity

The County of San Bernardino (the "County"), which was established by an act of the State Legislature on April 26, 1853, is a legal subdivision of the State of California charged with governmental powers. The County's powers are exercised through a five-member Board of Supervisors (the "Board") which, as the governing body of the County, is responsible for the legislative and executive control of the County. As required by generally accepted accounting principles, these basic financial statements present the primary government and its component units, which are, in substance, although legally separate entities, part of the County's operations and so data from these units are blended with the data of the primary government. Each blended component unit has a June 30 year-end.

The County's Comprehensive Annual Financial Report does not include the financial statements of the San Bernardino County Employee's Retirement Association (SBCERA). The Retirement Board controls the Retirement Association acting as fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes a separate Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and was determined not to be a component unit according to the criteria set forth in Governmental Accounting Standards Board, the Financial Reporting Entity (GASB 39).

Additional detailed financial information for each of these entities can be obtained from the Auditor/Controller's Office at 222 W. Hospitality Lane, San Bernardino, CA 92415-0018.

(b) Blended Component Units

Using the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 39, the Financial Reporting Entity, management determined that the following component units should be blended:

- Fire Protection Districts
- Flood Control District
- Park and Recreation Districts
- Crestline Sanitation District
- County Service Areas
- Various joint powers authorities ("JPAs")
- The Inland Empire Facilities Corporation, created for the benefit of the County
- Inland Empire Solid Waste Authority
- San Bernardino County Financing Authority
- Crestline Financing Authority
- Redevelopment Agency of the County of San Bernardino

The County is financially accountable for each of the above component units through the County's elected officials and descriptions of these component units are contained in subsequent sections of this Comprehensive Annual Financial Report. Financial accountability is demonstrated by the Board of Supervisors acting as the governing board for the component unit. Because of their relationship with the County and the nature of their operations, each of the component units is, in substance, part of the County's operations and, accordingly, the activities of these component units are combined (blended) with the activities of the County for purposes of reporting in the accompanying basic financial statements.

Effective July 1, 2003, the San Bernardino County of Board of Supervisors approved the transition of the Community Services Department of the San Bernardino County to a private, non-profit corporation. The corporation is now known as the Community Action Partnership of San Bernardino of San Bernardino County. The corporation has been officially designated by the State Department of Community Services and Development as the Community Action Agency for San Bernardino County. The Community Action Partnership (formally known as the Community Services Department) no longer meets the definition of a bended component unit in accordance with GASB 39.

(c) Discretely Presented Component Unit

The FIRST 5 of San Bernardino County (formerly the Children and Families First Commission) was formed in 1998 under the California Health and Safety Code Section 10110, Chapter 29 of Title 1 of the San Bernardino County Code, and the California Children and Families First Act of 1998. The Commission was created for the purpose of promoting, supporting and improving the carly development of children from the prenatal stage to five years of age and to be funded by allocations of California Proposition 10 Tobacco Tax. The board consists of seven members, three of who are officers of the County, while the remaining four are appointed by the San Bernardino County Board of Supervisors. The FIRST 5 is a discretely presented component unit as its governing body is not substantially the same, as that of the County and the FIRST 5 does not provide services entirely or almost entirely to the County but rather to the citizenry.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

In accordance with Governmental Accounting Standards Board Statement (GASB) No. 34 (GASB 34), the basic financial statements consist of the following:

- Government-wide financial statements,
- Fund financial statements, and
- Notes to the basic financial statements.

Government – Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the County. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipient for goods or services offered by the program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the County's funds, including fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

The County reports only one major governmental fund:

- *The General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the County that are not accounted for through other funds. For the County, the General Fund includes such activities as General Government, Public Protection, Public Ways and Facilities, Health and Sanitation, Public Assistance, Education, and Recreation and Cultural Services.

The County reports the following major enterprise funds.

- *The County Medical Center Fund* accounts for inpatient and outpatient care including emergency room services and indigent care to County residents. The fund is financed primarily by patient care services.

- *The Waste Systems Division Fund* accounts for refuse disposal services provided to the public by twenty landfill sites. The waste disposal program is financed by funds derived from gate fees at the San Bernardino Valley landfill sites and from land use fees charged to property owners in both the mountain and desert areas.

The County reports the following additional fund types in their fund financial statements:

- *Internal Service Funds* Account for printing services, records management, central mail, telephone services, computer operations, vehicle services, risk management, and flood control equipment operations that provide services to other departments or agencies of the County on a cost reimbursement basis

- The *Investment Trust Fund* accounts for the pooled investments of numerous self-governed school and special districts for which cash and investments are held by the County Treasurer. The financial reporting for these governmental entities, which are independent of the County, is limited to the total amount of cash and investments and other assets, and the related fiduciary responsibility of the County for disbursements of these assets. Activities of the school districts and special districts are administered by their own separate elected boards and are independent of the County Board of Supervisors. The County Auditor/Controller makes disbursements upon the request of the responsible school and self-governed district officers. The County Board of Supervisors has no effective authority to govern, manage, approve budgets, assume financial responsibility, establish revenue limits, nor to appropriate surplus funds available in these entities. Therefore, these entities are fiscally independent of the County.

- The *Agency Funds* account for assets held by the County as an agent for various local governments.

(b) Basis of Accounting

The government-wide, proprietary, and investment trust fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes and sales taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period, and recognized as revenue. The County considers items available if received within 9 months of year end, for voluntary non-exchange transactions such as federal and state grants. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when the payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

Proprietary funds are used to account for business-type activities, which are financed mainly by fees and charges to users of the services provided by the funds' operations. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the County has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

(c) Capital Assets And Long-Term Debt

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the government-wide Statement of Net Assets.

(d) Due From Other Governments

At June 30, 2004, the General Fund accrued $139,885 of receivables from other governments, of which $116,830 was due from the State of California. Of the amount owed by the State, $21,972 was for Health Care Services, $47,410 was for Public Social Services, $29,944 was for motor vehicle license fees and sales tax monies, and the remaining $17,504 was for other services. Amounts owed from cities for booking fees and other services were $7,094. The remaining amount of $15,961 was due from the federal government and other governmental agencies.

(e) Taxes and Accounts Receivable

The $17,906 taxes receivable balance in the Governmental Activities column of the statement of net assets at June 30, 2004 is net of an allowance of doubtful accounts of $860. The $26,024 accounts receivable balance of the Medical Center Enterprise Fund at June 30, 2004 is net of an allowance for doubtful accounts of $197,818.

The $394 accounts receivable balance of the Fire Protection Districts – Ambulance Fund at June 30, 2004 is net of an allowance for doubtful accounts of $679. The $273 accounts receivable balance of the Crestline Sanitation District Fund at June 30, 2004 is net of an allowance for doubtful accounts of $5. These funds are reflected as part of the enterprise funds on the statement of net assets.

(f) Deferred Revenue

In the fund financial statements, governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2004, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows.

	Unavailable	Unearned	Total
Governmental Activites			
General Fund			
Developer Deposits	$ -	$ 3,039	$ 3,039
Property Tax Receivable	9,086		9,086
Due from governmental agencies	-	5,066	5,066
Nonmajor funds			
Property Tax Receivable	5,076	-	5,076
Due from governmental agencies	-	147	147
Total Governmental Activities	$ 14,162	$ 8,252	$ 22,414

(g) Cash and Cash Equivalents

For purposes of the statement of cash flows, the County considers all pooled investments and other highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

(h) Investments

The County's investments are governed by the California Government Code and the County's Investment Policy. These approved investments include U.S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements and reverse repurchase agreements as authorized by the Government Code Sections 53601, 53635 and 53638 which limit the investments to certain maximum percentages by investment type in the pool.

The County's investments and securities are reported at fair value based upon quoted market prices. Securities having no sales are valued based upon last reported bid prices. The County intends to either hold investments until maturity or until market values equal or exceed cost. The value of the various investments will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions.

(i) Inventories and Prepaid Items

Inventories, which consist principally of materials and supplies held for consumption, are valued at cost (first-in, first-out basis) for governmental fund types and at an amount which approximates the lower of average cost or market for proprietary fund types. Inventories of the governmental activities are accounted for as expenditures when the inventory items are consumed. In the fund financial statements, reported inventories are offset with a corresponding reservation of fund balance because these amounts are not available for appropriation and expenditure.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and the fund financial statements.

(j) Property Taxes

The County levies, collects and apportions property taxes for all taxing jurisdictions within the County, including school and special districts. Property taxes are determined by applying approved rates to the assessed values of properties. The total 2003-04 gross assessed valuation of the County of San Bernardino was $ 77,425,423 (after deducting $ 23,080,560 for the redevelopment tax allocation increment).

Article XIIIA of the State of California Constitution limits the property tax levy to support general government services of the various taxing jurisdictions to $1.00 per $100.00 of assessed value. Taxes levied to service voter-approved debt prior to June 30, 1978 are excluded from this limitation.

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

The term “unsecured” refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed. In the fund financial statements, property tax revenues are recognized in the fiscal year for which they are levied, provided they are due and collected within sixty days after fiscal year-end. Property taxes are recorded as deferred revenue when not received within sixty days after fiscal year-end. In the government – wide financial statements, property taxes are recorded as revenue when levied regardless of when the cash is collected.

(k) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roadways, bridges, roadway signage, guardrails, drainage systems, traffic lights, dams, and flood control), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than $5,000.00 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, equipment, and infrastructure of the primary government is depreciated using the straight line method over the following estimated useful lives:

Infrastructure	10 to 100 years
Structure and improvements	45 years
Equipment	5 to 15 years

The County has six networks of infrastructure assets – roads, runways/taxiways, water/sewer, lighting, drainage, and flood control.

(l) Employee Compensated Absences

Liabilities for vacation, holiday benefits, sick pay and compensatory time are accrued when incurred in the government-wide and proprietary fund financial statements. In the event of retirement or termination, an employee is paid 100% of accumulated vacation pay, and those with ten or more years of continuous services are paid 30% to 50% of their accumulated sick leave. Up to two times the annual vacation accrual rate may be carried over from one year to the next. In accordance with GASB Interpretation No. 6, a liability for these amounts is reported in the governmental funds financial statements only if they have matured, for example, as a result of employee resignations and retirements prior to year-end and are paid by the County subsequent to year-end.

(m) Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either “due to/from other funds” (i.e., the current portion interfund loans) or “Interfund receivables/payables”(i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”. Interfund receivables, as reported in the fund financial statements, are offset by the fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

(n) Use of Estimates

The presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – RESTATEMENT OF FUND EQUITY/NET ASSETS

Compensated Absences

In the year ended June 30, 2003, the County understated the liability for compensated absences, which resulted in a restatement of net assets.

Prepaid Pension Asset

In accordance with GASB 27, *Accounting for Pension by State and Local Governmental Employers*, the County has calculated the 1995 prepaid pension asset and determined that the net assets reported as of June 30, 2003 were understated. As a result, the beginning net assets have been restated to account for prepaid pension asset.

Restatements to the Fund-Type Financial Statements:

	Medical Center	Internal Service Funds
Beginning Fund Balance/Net Assets (deficit), as previously reported	$ (22,584)	$ (1,180)
Compensated Absences	(619)	(511)
Beginning fund balance/Net Assets as restated	$ (23,203)	$ (1,691)

Restatements to the Government-Wide Financial Statements:

	Governmental Activities	Business -Type Activities
Beginning Net Assets, as previously reported	$ 938,656	$ 44,252
Medical Center	-	(619)
Internal Service Funds	(511)	-
Compensated Absences	(17,922)	-
Prepaid Pension Asset	399,038	-
	$ 1,319,261	$ 43,633

NOTE 4 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for governmental activities in the statement of net assets are different from those reported for governmental funds in the balance sheet. The following provides a reconciliation of those differences.

	Total Governmental Funds (Page 40)	Long-Term Assets and Liabilities (1)	Internal Service Funds (2) (Page 43)	Eliminations	Statement of Net Assets Totals (Page 36)
ASSETS					
CASH AND CASH EQUIVALENTS	$ 520,334	$ -	$ 76,929	$ -	$ 597,263
INVESTMENTS	9,620	-	-	-	9,620
ACCOUNTS RECEIVABLE - NET	3,443	-	218	-	3,661
TAXES RECEIVABLE	27,992	(10,086)	-	-	17,906
INTEREST RECEIVABLE	378	-	-	-	378
LOAN RECEIVABLE	1,469	6,407	-	-	7,876
OTHER RECEIVABLES	48	-	-	-	48
DUE FROM OTHER FUNDS	64,793	-	723	(65,516)	-
DUE FROM OTHER GOVERNMENTS	171,535	-	658	11,938	184,131
INTERNAL BALANCES	-	-	-	28,493	28,493
INVENTORIES	1,440	-	1,774	-	3,214
PREPAID ITEMS	178	-	1,235	-	1,413
DEFERRED CHARGES	-	4,180	-	-	4,180
INTERFUND RECEIVABLE	1,400	-	-	(1,400)	-
RESTRICTED CASH AND INVESTMENTS	143,283	-	-	-	143,283
OTHER ASSETS	-	-	-	-	-
PREPAID PENSION ASSET		848,238	-	-	848,238
LAND	-	48,501	-	-	48,501
STRUCTURES, IMPROVEMENTS, AND INFRASTRUCTURE	-	1,558,038	7,049	-	1,565,087
EQUIPMENT	-	146,329	51,451	-	197,780
ACCUMULATED DEPRECIATION AND AMORTIZATION	-	(737,333)	(39,049)	-	(776,382)
CONSTRUCTION IN PROGRESS	-	134,764	-	-	134,764
TOTAL ASSETS	$ 945,913	$ 1,999,038	$ 100,988	$ (26,485)	$ 3,019,454
LIABILITIES					
ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES	$ 37,713	$ -	$ 2,862	$ -	$ 40,575
SALARIES AND BENEFITS PAYABLE	42,166	-	1,493	-	43,659
DUE TO OTHER FUNDS	21,866	-	2,969	(24,835)	-
DUE TO OTHER GOVERNMENTS	32,792	(300)	-	-	32,492
DUE TO COMPONENT UNIT	-	300	-	-	300
INTEREST PAYABLE	2,100	-	-	-	2,100
DEFERRED REVENUE	22,414	(14,708)	256	-	7,962
INTERFUND PAYABLE	1,650	-	-	(1,650)	-
TRANS NOTE PAYABLE	140,000	-	-	-	140,000
COMPENSATED ABSENCES PAYABLE	-	96,853	3,282	-	100,135
COP BONDS AND NOTES PAYABLE	-	1,503,250	-	-	1,503,250
CAPITAL LEASE OBLIGATIONS	-	4,732	785	-	5,517
OTHER LONG TERM LIABILITIES	702	25,851	-	-	26,553
ESTIMATED LIABILITY FOR LITIGATION AND SELF-INSURED CLAIMS	-		101,709	-	101,709
DEFERRED AMOUNT ON REFUNDING	-	(6,763)	-	-	(6,763)
PREMIUM	-	2,106	-	-	2,106
DISCOUNT	-	(350,495)	-	-	(350,495)
TOTAL LIABILITIES	301,403	1,260,826	113,356	(26,485)	1,649,100
FUND BALANCE/NET ASSETS	644,510	738,212	(12,368)	-	1,370,354
TOTAL LIABILITIES & FUND BALANCE/NET ASSETS	$ 945,913	$ 1,999,038	$ 100,988	$ (26,485)	$ 3,019,454

Capital assets used in governmental activities that are not financial resources and, therefore, are not reported in the funds.		
Land	48,501	
Structures, Improvements, and Infrastructure	$ 1,558,038	
Equipment	146,329	
Accumulated Depreciation and Amortization	(737,333)	
Construction in Progress	134,764	
		$ 1,150,299
Net Pension Obligation Bond		852,418
Other long-term assets that are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		6,394
Pension Obligation Bond payable		(463,895)
Long-term liabilities, including bonds payable, that are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences Payable	(96,853)	
COP Bonds and Notes Payable	(1,039,355)	
Capital Lease Obligations	(4,732)	
Other Long Term Liabilities	(21,216)	
Deferred Amount on Refunding	6,763	
Premium	(2,106)	
Discount	350,495	
		(807,004)
		$ 738,212
Internal service funds that are used by management to charge the costs of general services, telephone services, computer operations, vehicle services, risk management, and flood control equipment to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		$ (12,368)

NOTE 5 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

(a) Budgetary information

In accordance with the provisions of Section 29000 – 29143 of the Government Code of the State of California, commonly known as the County Budget Act, the County prepares and adopts a budget on or before August 30, for each fiscal year. Budgets are adopted for the General Fund, certain Special Revenue Funds, and certain Capital Projects Funds. Budgets are prepared on the modified accrual basis of accounting, except that current year encumbrances are budgeted as expenditures.

Annual budgets are not adopted for the following funds: Community Services Department Special Revenue Fund, Pension Obligation Bonds Debt Service Fund and the Joint Powers Authorities Special Revenue, Debt Service and Capital Projects Funds.

The legal level of budgetary control is maintained at the object level and sub-object level for capital assets within departments. However, presentation of the basic financial statements at the legal level of control is not feasible due to excessive length. Because of the large volume of detail, the budget and the actual statements have been aggregated by function. The County does prepare a separate final budget document at the object and sub-object level that is made available to the public by the office of the Auditor/Controller.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Supplemental appropriations necessary and normally financed by unanticipated revenues during the year must also be approved by the Board. From time to time during the year, supplemental appropriations were necessary and approved by the Board. Amendments or transfers of appropriations between object levels within the same department may be approved by the Board or the County Administrative Office. Transfers at the sub-object level or cost center level may be done at the discretion of the department head. Any deficiency of the budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided in the County Budget Act.

(b) Excess of Expenditures Over Appropriations

For fiscal year 2003-04, there were no instances in which expenditures exceed appropriations.

(c) Net Deficits of Individual Funds

The Medical Center expects to eliminate its net deficit of $ 26,744 in future years through rate increases and/or possible contributions from the General Fund.

The Jobs and Employment Services net deficit of $208 is expected to be eliminated in future years through increases in government grants and other local reimbursements.

The Risk Management Division incurred a net deficit of $ 55,725 is expected to be eliminated over the next five years through rate increases.

(d) Reconciliation of Budgetary Basis to GAAP Basis

The annual County Budget is prepared, approved and adopted in accordance with provisions of the County Budget Act. In preparing the budget, the County utilizes a basis of accounting which is different from the basis prescribed by generally accepted accounting principles ("GAAP"). The accompanying General Fund Statement of Revenues, Expenditures, and Changes in Fund

Balances – Budget and Actual on Budgetary Basis presents comparisons of the legally adopted budget and the actual data on a budgetary basis. The following adjustments are necessary to provide a meaningful comparison of the actual results of operations with the budget:

	General Fund
Fund balance - budgetary basis	$ 320,166
Outstanding encumbrances for budgeted funds	9,632
Fund balance - GAAP basis	$ 329,798

Net Assets/Fund Balances

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested In Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets as well as any premium or discount paid on debt reduce the balance in this category.

- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulation of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Examples of restricted net assets include federal and state grants that are restricted by grant agreements for specific purposes and restricted cash set aside for debt service payments. At June 30, 2004, the County reported restricted net assets of $400,271 restricted for the following purposes:

Restricted for:	Amount
Legally segregated special revenue funds for grants and other purposes	$ 252,401
Debt Service	40,193
Capital project funds	21,575
Permanent funds	543
State Realignment Funds	85,559
	$ 400,271

- *Unrestricted Net Assets* – This category represents net assets of the County, not restricted for any project or other purpose.

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced or eliminated by similar actions.

Fund balances which are not available for appropriation at June 30, 2004 are reserved or designated for the following purposes:

Reserved Fund Balance

	Governmental Activities		
	General Fund	Nonmajor Funds	Total
Encumbrances	$ 9,632	$ 38,293	$ 47,925
Prepaid Items	1,344	-	1,344
Noncurrent Interfund Receivables	1,025	403	1,428
Debt Service	-	40,193	40,193
Inventories	1,205	235	1,440
Loans Receivable	1,462	116	1,578
Deposits with Others	-	-	-
Teeter Plan	9,077	-	9,077
Total	$ 23,745	$ 79,240	$ 102,985

Designated Fund Balance

	General Fund
General Purpose	$ 34,824
Medical Center Debt Service	32,075
Justice Facilites	3,706
West Valley Maximum Security	1,493
Future Retirement Rate	7,000
Teeter Plan	10,183
Restitution	2,114
Equity Pool	4,382
Insurance	3,000
Bark Beetle Reserve	1,830
Hall of Paleontology	865
Capital Projects	4,000
SWBPI - Law & Justice	3,406
Total Designated Fund Balance	$ 108,878

NOTE 6 – CASH AND INVESTMENTS

Cash and investments include the cash balances of substantially all funds which are pooled (the "pool") and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7 – like pool. The pool does not issue a separate report. Included also are cash and investments held by certain joint powers authorities and cash held by various trustee financial institutions in accordance with the California Government Code.

DEPOSITS

At June 30, 2004, the carrying amount of the County's deposits was $38,732 and the corresponding bank balance was $97,300. The difference of $58,568 was principally due to outstanding warrants, wires and deposits in transit. The County's deposits are categorized in the following manner:

Category 1 - Insured or collateralized with securities held by the County or by its agent in the County's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the County's name.

Category 3 - Uncollateralized or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the County's name.

County deposits by category as of June 30, 2004 are as follows:

	Category			
	1	2	3	Total
Bank Accounts	$ 10,683	$ 2,589	$ 84,028	$ 97,300

INVESTMENTS

The County's investments are governed by the California Government Code and the County's Investment Policy. These approved investments include U.S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements and reverse repurchase agreements as authorized by Government Code Sections 53601, 53635 and 53638 which limit the investments to certain maximum percentages by investment type in the pool.

Monies deposited in the County pool by the participants represent an individual interest in all assets and investments in the County pool based upon the amount deposited. Interest income, realized gains and losses are distributed quarterly to the pool participants, based upon their average daily balance. Unrealized gains and losses are distributed annually to the pool participants, based upon their average daily balance.

The County Treasurer determines the market-to-book value difference of the County pool on a monthly basis and provides monthly reports of its asset mix, average life, market value and other features to both the Board of Supervisors and the County Treasury Oversight Committee. The function of the Committee is to render unbiased and objective opinions on matters involving the Treasurer's investment of public funds. Specifically they are charged with: 1) reviewing of the annual Investment Policy Statement and any subsequent changes, 2) reviewing of the investment portfolio and reports for compliance with law and investment policy, and 3) causing an annual audit to be conducted on the pooled investment portfolio.

State law now requires that all operating monies of the County, school districts, and certain special districts be held by the County Treasurer. The net asset value associated with legally mandated participants in the asset pool was $2,842,527 at June 30, 2004.

As of June 30, 2004, the fair value of the County pool was $2.9 billion. Approximately 13% of the County pool is attributable to the County General Fund, with the remainder of the balance comprised of other County funds, school districts and special districts. Additionally, as of June 30, 2004, $56,371 of the amounts deposited in the County pool was attributable to depositors who are not required to, but choose to, invest in the County pool.

A summary of the investments held by the County Treasurer is as follows:

Investment	Fair Value	Cost	Interest Rate % Range	Maturity Date
U.S. Government Securities	$ 1,829,869	$ 1,837,939	1.04 - 5.80	07/01/04 - 11/12/08
Repurchase Agreements	100,001	100,000	1.57	07/01/04
Municipal Bonds	12,996	12,955	1.42 - 5.55	08/01/04 - 08/01/05
Collateralized Certificates of Deposit	9,990	10,000	1.35	10/25/04
Negotiable Certificates of Deposit	139,784	140,000	1.07 - 1.95	07/08/04 - 05/25/05
Commercial Paper	554,428	554,238	1.01 - 1.56	07/01/04 - 12/21/04
Medium Term Notes	91,730	93,062	1.15 - 1.93	07/15/04 - 06/15/05
Mutual Funds	160,100	160,100	1.00	N/A
	$ 2,898,898	$ 2,908,294		

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2004:

Statement of Net Assets		
Equity of internal pool participants	$	1,280,461
Equity of external pool participants:		
Voluntary		56,371
Involuntary		1,562,066
Total Net Assets held for pool participants	$	2,898,898

Statement of Changes in Net Assets		
Net Assets at July 1, 2003	$	2,706,613
Net change in investments by pool participants		192,285
Net Assets at June 30, 2004	$	2,898,898

In accordance with GASB Statement No. 3, the County's investments at June 30, 2004 are categorized separately to give an indication of the level of custodial credit risk assumed by the County. The County's investments are categorized in the following manner:

Category 1 - Includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name.

Category 2 - Includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the County's name.

Category 3 - Includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent, but not in the County's name.

County investments by category as of June 30, 2004 are as follows:

	Category 1	Category 2	Category 3	Fair Value
U.S. Government Securities	$ 1,829,869	$ -	$ -	$ 1,829,869
Repurchase Agreements	100,001	-	-	100,001
Municipal Bonds	12,996	-	-	12,996
Collateralized Certificates of Deposit	9,990	-	-	9,990
Negotiable Certificates of Deposit	139,784	-	-	139,784
Commercial Paper	554,428	-	-	554,428
Medium Term Notes	91,730	-	-	91,730
Total Investments Controlled by County Treasurer	2,738,798	-	-	2,738,798
Investments Controlled by Fiscal Agents:				
U.S. Government Securities	438	6,908	29,308	36,654
Total Categorized Investments	$ 2,739,236	$ 6,908	$ 29,308	$ 2,775,452

Summary of Cash and Investments (in thousands):

Total Categorized Investments at Fair Value	$ 2,775,452
Total Deposits at Carrying Amount	38,732
Other Cash Funds (Imprest, Revolving)	4,353
Non-Categorized Mutual Funds (County)	160,100
Non-Categorized Mutual Funds with Fiscal Agents	23,542
Non-Categorized Investments in Cash with Fiscal Agents (Guaranteed Investment Contracts)	23,661
Total Cash and Investments (Including Restricted Amounts)	$ 3,025,840

Total County Cash and Cash Equivalents, Investments and Restricted Cash are reported as follows (in thousands):

Total Governmental Activities	$ 750,166
Total Business-Type Activities	244,515
Total Agency Funds	1,960,686
First 5 (Discretely Presented)	70,473
Total Cash and Investments	$ 3,025,840

NOTE 7 – INTERFUND TRANSACTIONS

Due to/from other funds at June 30, 2004 are as follows:

General Fund	Nonmajor Governmental Funds	$	11,150
	Medical Center		28,857
	Waste Systems Division		5,613
	Nonmajor Enterprise Funds		43
	Internal Service Funds		155
	Investment Funds		299
	Agency Funds		2,743
			48,860
Nonmajor Governmental Funds	General Fund		5,424
	Nonmajor Governmental Funds		3,499
	Waste Systems Division		18
	Nonmajor Enterprise Funds		93
	Internal Service Funds		2,814
	Investment Funds		380
	Agency Funds		3,705
			15,933
Medical Center	General Fund		685
	Nonmajor Governmental Funds		4
	Agency Funds		430
			1,119
Waste Systems Division	Nonmajor Governmental Funds		18
	Agency Funds		552
			570
Nonmajor Enterprise Funds	Nonmajor Governmental Funds		26
	Agency Funds		317
			343
Internal Service Funds	General Fund		102
	Nonmajor Governmental Funds		426
	Medical Center		50
	Agency Funds		145
			723
Investment Funds	Nonmajor Governmental Funds		14
	Agency Funds		7,554
			7,568
Agency Funds	General Fund		518
	Agency Funds		12
			530
Total		$	75,646

Transfers are used to (1) move revenues from the fund required by statute or budget to collect them to the fund required by statute or budget to expend them, (2) move receipts identified for debt services from the funds collecting the receipts to the debt service funds as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

Interfund Receivable/Payable at June 30, 2004 are as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 1,000
		1,000
Nonmajor Governmental Funds	Nonmajor Governmental Funds	400
		400
Agency Funds	Nonmajor Governmental Funds	250
		250
Total		$ 1,650

Transfers To/From Other Funds for the year ended June 30, 2004 are as follows:

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various County operations and re-allocations of special revenues. The following schedule briefly summarizes the County's transfer activity:

(a) Between Governmental and Business-type Activities:

Transfer From	Transfer To	Amount
General Fund	Medical Center	$ 37,158
	Internal Service Funds	2,000
		39,158
Internal Service Funds	Nonmajor Governmental Funds	2,605
		2,605
Waste Systems Division	General Fund	8,000
	Nonmajor Governmental Funds	70
		8,070
Medical Center	Nonmajor Governmental Funds	1,927
		1,927
Nonmajor Enterprise Funds	General Fund	11
	Nonmajor Governmental Funds	2,632
		2,643
Total		$ 54,403

(b) Between Funds within the Governmental or Business-type Activities (1)

General Fund	Nonmajor Governmental Funds	41,462
		41,462
Nonmajor Governmental Funds	General Fund	34,787
	Nonmajor Governmental Funds	11,402
	Nonmajor Enterprise Funds	3
		46,192
Internal Service Funds	Internal Service Funds	7
		7
Total		$ 87,661

(1) These transfers were eliminated in the consolidation, by column, for the Governmental and Business Type Activities.

Amounts transferred out of the General Fund to the Medical Center are the results of year-end budgeted transfer, and the annual transfer from health care cost to the Medical Center.

Amounts transferred from the General Fund to the Nonmajor Governmental Funds are the results of the joint power authorities' debt service payments and the pension obligation bond debt service payments.

NOTE 8 – RESTRICTED CASH AND INVESTMENTS

Cash and cash equivalents that are restricted by legal or contractual requirements at June 30, 2004 are comprised of the following:

General Fund

The General Fund has restricted cash and cash equivalents in the amount of $141,988 for the repayment of the Tax and Revenue Anticipation Notes (“TRANS”), and the interest thereon due July 1, 2004.

Special Revenue Funds

Flood Control District:

The Flood Control District has set aside a total of $840. $124 is to be used for the construction of the Etiwanda/San Sevaine and Day Creek Projects. $716 has been contractually set-aside with an escrow agent for the payment of retention payables.

County Service Areas:

Restricted cash and cash equivalents of $455 represent grant anticipation note agreement money with escrow agent that has not been drawn.

Enterprise Funds

Medical Center:

Restricted cash and cash equivalents of $59,176 represent funds set aside for debt service payments.

Waste System Division:

Restricted cash and cash equivalents of $107,264 represent funds set aside as specified by bond covenants and for a waste water treatment facility, groundwater detection, treatment and remediation, and for State mandated site closure and maintenance costs.

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government

	Balance July 1, 2003	Additions	Decreases	Balance June 30,2004
Governmental Activities				
Capital assets, non-depreciable:				
Land	$ 48,501	$ -	$ -	$ 48,501
Construction in progress	75,058	66,849	7,143	134,764
Total assets, non-depreciable	123,559	66,849	7,143	183,265
Capital Assets, depreciable:				
Improvements other than Buildings	116,040	3,525	39	119,526
Structures and Improvements	441,908	9,093	18	450,983
Equipment	191,738	24,980	18,938	197,780
Infrastructure	978,592	15,986	-	994,578
Total assets-depreciable	1,728,278	53,584	18,995	1,762,867
Less accumulated depreciation for :				
Improvements other than Buildings	52,396	5,012	40	57,368
Structures and Improvements	120,592	10,060	18	130,634
Equipment	121,054	23,002	15,828	128,228
Infrastructure	437,332	22,820		460,152
Total accumulated depreciation	731,374	60,894	15,886	776,382
Total capital assets, depreciable, net	996,904	(7,310)	3,109	986,485
Governmental activities capital assets, net	$ 1,120,463	$ 59,539	$ 10,252	$ 1,169,750
Business-type Activities				
Capital assets, non-depreciable:				
Land	$ 39,400	$ -	$ -	$ 39,400
Construction in progress	7,247	6,580	2,240	11,587
Total assets, non-depreciable	46,647	6,580	2,240	50,987
Capital Assets, depreciable:				
Improvements other than Buildings	186,810	28,686		215,496
Structures and Improvements	532,473	18	24,430	508,061
Equipment	97,810	3,513	539	100,784
Total capital assets-depreciable	817,093	32,217	24,969	824,341
Less accumulated depreciation for :				
Improvements other than Buildings	91,138	31,757	1,125	121,770
Structures and Improvements	84,465	12,891	24,755	72,601
Equipment	62,062	10,814	375	72,501
Total accumulated depreciation	237,665	55,462	26,255	266,872
Total capital assets, depreciable, net	579,428	(23,245)	(1,286)	557,469
Business-type activities capital assets, net	$ 626,075	$ (16,665)	$ 954	$ 608,456

Depreciation

Depreciation expense was charged to governmental functions as follows:

General Government	$	8,621
Public Protection		18,531
Public Ways and Facilities		28,155
Health and Sanitation		675
Public Assistance		2,177
Education		260
Recreation and Cultural Services		2,475
Total depreciation expense - governmental functions	$	60,894

Depreciation expense was charged to the business-type functions as follows:

Medical Center	$	23,328
Waste Systems Divison		3,460
Nonmajor Funds		28,674
Total depreciation expense - business type functions	$	55,462

Construction in Progress

Construction in Progress consists of the following projects	Governmental Activities	Business-Type Activities
Chino Airport and Other Airport Projects	$ 15,051	$ -
High Desert Juvenile Facility	26,075	-
Various Flood Control Projects	57,586	-
Other Various Projects	36,052	11,587
Total	$ 134,764	$ 11,587

Discretely Presented Component Units

Activity for the FIRST 5 of San Bernardino for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Decreases	Balance June 30, 2004
Capital assets, being depreciated:				
Furniture and Computer Equipment	$ 137	$ 112	$ 5	$ 244
Less accumulated depreciation for:				
Furniture and Computer Equipment	28	30	-	58
District capital assets, net	$ 109	$ 82	$ 5	$ 186

NOTE 10 – SELF INSURANCE

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to $1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to $30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to $2 million per occurrence and covered by CSAC EIA for up to $10 million for employer's liability and up to $50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a $25 thousand deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with an SIR of $1 million for each claim. Maximum coverage under the policy is $11.5 million per claim with an additional $18.5 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a $100,000 deductible, and excess limits up to $10 million per occurrence.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%. It is the County's practice to obtain actuarial studies at least biennially.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. The County's investment in the agreements totaled $45.7 million at June 30, 2004.

The claims liability of $101.7 million reported at June 30, 2004 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2003 and 2004 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-end
2002-03	$ 95,288	$ 30,685	$ 32,171)	$ 93,802
2003-04	93,802	45,128	(37,221)	101,709

NOTE 11 – LONG TERM DEBT

Primary Government

The following is a summary of long-term liability transactions for the year ended June 30, 2004:

Governmental Activities	Balance July 1, 2003	Additions	Reductions	Ending Balance June 30, 2004	Due Within One Year
Certificates of Participation, net	$ 232,640	$ 585	$ 7,702	$ 225,523	$ 10,265
Revenue Bonds, net	434,889	15,951	13,020	437,820	15,480
Other Bonds and Notes	21,184	463,895	324	484,755	346
Compensated Absences	99,443	68,738	68,046	100,135	66,500
Capital Lease Obligation	6,994	1,158	2,635	5,517	1,636
Estimated Liability for Litigation and Self -Insured Claims	93,802	45,128	37,221	101,709	32,047
Other Long-Term Liabilities	23,246	3,988	681	26,553	754
Total Governmental Activities - Long-term Liabiliites	$ 912,198	$ 599,443	$ 129,629	$ 1,382,012	$ 127,028

Business-type Activities	Balance July 1, 2003	Additions	Reductions	Ending Balance June 30, 2004	Due Within One Year
Certificates of Participation, net	$ 694,739	$ 2,453	$ 26,540	$ 670,652	$ 27,960
General Obligation Bonds	2,657	4	340	2,321	331
Notes	2,729	1,300	193	3,836	248
Compensated Absences	6,694	7,314	6,753	7,255	5,854
Capital Lease Obligation	289	1,817	447	1,659	354
Estimated Liability for Closure/ Postclosure Care Costs	141,859	-	19,439	122,420	21,467
Total Business-type Activities - Long-term Liabilities	$ 848,967	$ 12,888	$ 53,712	$ 808,143	$ 56,214

Other Long-Term Liabilities include $12,804 relating to construction of the San Sevaine Creek Water Project, $4,635 for the Day Creek Project, $6,165 relating to the San Timoteo Creek Project, $2,247 relating to the Lenwood/High Desert Estates Sewer Construction Project and $702 of loans from special districts.

At June 30, 2004 the $12,804 is owed to the United States Department of the Interior, Bureau of Reclamation, for construction of the San Sevaine Creek Water Project, and the $6,165 is owed to the United States Army Corp of Engineers ($6,000) and the City of Loma Linda Redevelopment Agency ($165) for the construction of the San Timoteo Creek Project. The $2,247 for the septic to sewer conversion is due to US Bank. Amounts owed to the Bureau of Reclamation are determined annually until the project is completed (approximately 8 years) based on costs incurred but not exceeding $20 million. After the project completion, the County has 15 years to pay back the liability along with 7% interest. The loan payable to the United States Army Corp of Engineers will be paid back over 15 years after the completion of the project and interest will be charged at the federal prime rate in effect upon the completion of the project. The loan payable of $165 to the City of Loma Linda Redevelopment Agency is non-interest bearing and will be paid back over the next 2 years.

In October 1986, the Flood Control District entered into a loan agreement with the Federal Government for construction of the Day Creek Project for $13,400. A subsequent agreement between the County (on behalf of the District) and the City of Rancho Cucamonga Redevelopment Agency provides the terms and conditions for repayment of the loan. Payments are reflected in the Flood Control District as other revenue (from the City of Rancho Cucamonga) and debt service-principal (to the Bureau of Reclamation). This agreement is to be in force approximately 24 years or until the project is complete and the federal loan is repaid. Payments commenced in 1992 and the remaining balance of the loan as of June 30, 2004, is $4,635.

A summary of bonds and notes payable recorded in the governmental activities and payable from Debt Service Funds is as follows:

Certificates of Participation	**Interest Rates (%)**	**Issue Date**	**Maturity Date**	**Original Issue Amount**	**Outstanding as of 6-30-04**
Capital Improvement Refinancing (1996)	Variable	06-21-96	11-01-25	$ 9,200	$ 8,200
County Center Refinancing (1996)	Variable	07-11-96	07-01-15	39,600	29,500
Public Improvement Project (1997)	3.85 to 5.00	10-01-97	10-01-25	17,790	14,895
West Valley Detention Center (2001 A)	4.00 to 4.60	10-25-01	11-01-18	8,365	8,365
West Valley Detention Center (2001 B)	3.50 to 4.00	10-25-01	11-01-12	42,075	41,710
Justice Center/Airport Improvement	3.00 to 5.00	03-01-02	07-01-16	68,100	64,225
West Valley Detention Center (2002 A)	4.50 to 5.25	08-6-02	11-01-18	44,480	44,185
Glen Helen Blockbuster (2003 A)	Variable	05-1-03	03-01-24	9,825	9,500
Glen Helen Blockbuster (2003 B)	Variable	05-1-03	03-01-24	9,875	9,600
					230,180
Deferred Amount on Refunding:					
West Valley Detention Center (2001 B)					(2,537)
Justice Center/Airport Improvement					(2,687)
West Valley Detention Center (2002 A)					(1,191)
Glen Helen Blockbuster (2003 A & B)					(348)
Premium(Discounts):					
West Valley Detention Center (2001 B)					523
Justice Center/Airport Improvement					414
West Valley Detention Center (2002 A)					1,169
Net Certificates of Participation					225,523
Revenue Bonds					
Pension Obligation (1995)	5.68 to 7.72	11-22-95	08-01-21	386,266	788,315
(Discounts)					(350,495)
Net Revenue Bonds					437,820
Other Bonds and Notes					
San Sevaine Redevelopment Bonds	5.30 to 6.85	03-01-00	09-01-29	19,770	18,965
County Library	3.41	07-18-01	02-01-31	1,982	1,895
Pension Obligation Bonds (2004)		06-24-04	08-01-23	463,895	463,895
Subtotal					484,755
Total Bonds And Notes Payable, Governmental Activities					$ 1,148,098

A summary of bonds and notes payable recorded in the business-type activities is as follows:

Medical Center	Interest Rates (%)	Issue Date	Maturity Date	Original Issue Amount	Outstanding as of 6-30-04
Certificates of Participation:					
Medical Center Project (Series 1994)	4.60 to 7.00	02-01-94	08-01-28	$ 283,245	$ 194,840
Medical Center Project (Series 1995)	4.80 to 7.00	06-01-95	08-01-22	363,265	128,875
Medical Center Project (Series 1996)	5.00 to 5.25	01-01-96	08-01-28	65,070	65,070
Medical Center Project (Series 1997)	4.30 to 5.50	09-01-97	08-01-08	121,095	74,075
Medical Center Project (Series 1998)	4.1895	10-22-98	08-01-26	176,510	176,510
					639,370
Less:					
Deferred Amount on Refunding					(41,467)
Discounts					(13,926)
Subtotal					583,977
Waste Systems Division					
Certificates of Participation					
Solid Waste Financing (Series 2003 B)	Variable	05-01-03	03-01-17	93,875	89,225
Less:					
Deferred Amount on Refunding					(2,550)
Subtotal					86,675
Net Certificates of Participation					670,652
County Service Areas					
General Obligation Bonds:					
Spring Valley Lake Sewer Facilities:					
Series A	6.50 to 6.75	02-15-72	02-15-02	1,300	15
Series B	6.10 to 6.15	04-01-74	04-01-04	1,000	20
Helendale Sewer Facilities:					
Series A	5.00	06-01-78	06-01-98	1,550	5
Helendale Water Facilities:					
Series B	7.00	09-01-82	06-01-97	1,450	5
Pinon Hills Water Distribution:					
Series A	5.00	03-01-78	03-01-18	1,708	986
Series B	5.00	03-01-78	03-01-18	275	140
Series C	9.00 to 11.00	11-01-84	03-01-05	1,518	180
Landers Water Distribution System	5.00	06-01-79	06-01-19	1,540	965
Oak Hills Water Distribution Facilities	7.00	09-01-74	09-01-94	750	5
General Obligation Bonds					2,321
Notes Payable:					
Morongo Valley Water Facilities (Note)	4.50	05-06-64	05-06-04	50	1
Hacienda Water Facilities (Note)	5.00	07-14-67	07-14-07	114	19
Crestline Sanitation District (Loan)		11-01-95	10-01-17	2,160	1,334
Morongo Valley Water Facilities (Loan)		08-17-99	08-17-04	80	51
Pinon Hills Water (Loan)		12-17-02	12-17-32	2,533	2,431
Notes Payable					3,836
Total Business-type Activities					$ 676,809

County Service Area 70, Improvement Zone L (CSA 70L) and the California Infrastructure and Economic Development Bank (CIEDB) entered into an agreement dated December 17, 2002 for the funding of a water tank project. Under the terms of the agreement, the project construction must begin no later than twelve months after May 28, 2002 and invoices must be to CIEDB for the entire amount of the project fund of $5,001 no later than thirty-five months after December 17, 2002. As of June 30, 2004, a total of $2,533 was approved and received from CIEDB.

Not included above, but carried in the Debt Service Fund, are $20 in matured bearer bonds payable for the Chino Civic Center Authority, a JPA that financed the Chino library facility.

General Obligation Bonds are issued to provide funds for the acquisition and construction of major capital facilities. These bonds are backed by the full faith and credit of the County, and revenue for the retirement of such bonds is provided by ad valorem taxes on property within the jurisdiction of the governmental unit issuing the bonds.

Certificates of Participation (COP) are secured by annual lease payments payable by the County for use of the facilities constructed or acquired from the COP proceeds. The County has created nonprofit organizations and joint powers authorities to issue the Certificates. The County leases various projects from the authorities. The lease payments are used by the authorities to pay interest on, and principal of, the COPs.

The Certificates of Participation contain certain bond covenants, which are deemed by the County to be duties imposed by law. The County must include the applicable lease-purchase payments due each year in its annual budget and make the necessary appropriations. The County is also covenanted to maintain certain levels of liability, property damage, casualty, rental interruption and earthquake insurance in connection with each lease-purchase agreement. The County is in compliance with all significant financial restrictions and requirements as set forth in its various debt covenants.

In prior years, the County has defeased certain Certificates of Participation by placing the proceeds of new certificates in an irrevocable trust to provide for all future debt service payments on the old certificates. Accordingly, the trust account assets and the liability for the defeased certificates are not included in the County's basis financial statements. At June 30, 2004, approximately $288,225 of outstanding debt is considered defeased.

One of the joint powers authorities issued revenue bonds in November 1995 for the purpose of enabling the County to finance outstanding pension indebtedness. The net outstanding balance of the revenue bonds at June 30, 2004 is $437,820.

The County's Board of Supervisors adopted a resolution to authorize the issuance of the County of San Bernardino pension obligation debenture in order to finance the County's share of the unfunded accrued actuarial liability of the S.B.C.E.R.A. On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of $189,070, $149,825, and $125,000.

The Bonds have various maturity dates ranging from: 2005 to 2018 for Fixed Rate bonds; 2004 to 2023 for Auction Rate Bonds; 2004 to 2023 for Index Bonds. Series 2004 A Fixed Rate Bonds has fixed interest rates that range from 2.43% to 5.86%. Series 2004 B-1 Action Rate Bonds have variable rates that reset daily via auction. Series 2004B-2 and 2004 B-b Auction Rate Bonds have variable rates that that reset every 28 days via auction.

The following is a schedule of principal debt service requirements to maturity as of June 30, 2004 for bonds and notes payable in the governmental activities:

Years Ending June 30	Certificates of Participation	Revenue Bonds	Other Long-Term Debt	Total
2005	$ 10,265	$ 15,480	$ 346	$ 26,091
2006	12,695	18,200	2,592	33,487
2007	13,195	21,200	2,119	36,514
2008	13,730	24,510	3,755	41,995
2009	14,105	28,155	5,587	47,847
2010-2014	78,255	203,100	61,478	342,833
2015-2019	73,270	277,605	146,360	497,235
2020-2024	12,075	200,065	254,276	466,416
2025-2029	2,590		6,551	9,141
2030-2034			1,691	1,691
Total Principal	230,180	788,315	484,755	1,503,250
Plus Premium	2,106			2,106
Less:				
Deferred Amount on Refunding	(6,763)			(6,763)
Discount		(350,495)		(350,495)
Total Bonds and Notes Payable	$ 225,523	$ 437,820	$ 484,755	$ 1,148,098

The following is a schedule of interest expense requirements to maturity as of June 30, 2004 for bonds and notes payable in the governmental activities:

Years Ending June 30	Certificates of Participation	Revenue Bonds	Other Long-Term Debt	Total
2005	$ 8,233	$ 14,500	$ 16,698	$ 39,431
2006	7,845	13,377	24,592	45,814
2007	7,435	12,053	25,959	45,447
2008	7,011	10,504	25,955	43,470
2009	6,593	8,703	25,656	40,952
2010-2014	25,152	12,312	121,270	158,734
2015-2019	9,198		93,785	102,983
2020-2024	1,189		37,925	39,114
2025-2029	93		1,961	2,054
2030-2034			115	115
Total Interest	$ 72,749	$ 71,449	$ 373,916	$ 518,114

The following is a schedule of principal debt service requirements to maturity as of June 30, 2004 for bonds and notes payable in the business-type activities:

Years Ending June 30	Certificates of Participation	General Obligation Bonds	Notes Payable	Total
2005	$ 27,960	$ 331	$ 248	$ 28,539
2006	29,500	110	202	29,812
2007	31,185	115	208	31,508
2008	32,930	120	207	33,257
2009	35,845	125	213	36,183
2010-2014	118,145	725	2,343	121,213
2015-2019	133,705	795	415	134,915
2020-2024	139,870			139,870
2025-2029	179,455			179,455
2030-2034				0
Total Principal	728,595	2,321	3,836	734,752
Less:				
Deferred Amount on Refunding	(44,017)			(44,017)
Discount	(13,926)			(13,926)
Total Bonds and Notes Payable	$ 670,652	$ 2,321	$ 3,836	$ 676,809

The following is a schedule of interest expense requirements to maturity as of June 30, 2004 for bonds and notes payable in the business-type activities:

Years Ending June 30	Certificates of Participation	General Obligation Bonds	Notes Payable	Total
2005	$ 33,592	$ 121	$ 24	$ 33,737
2006	32,228	100	22	32,350
2007	30,772	94	20	30,886
2008	29,245	88	18	29,351
2009	27,584	82	17	27,683
2010-2014	120,710	310	61	121,081
2015-2019	93,826	114	18	93,958
2020-2024	61,247			61,247
2025-2029	22,472			22,472
2030-2034				0
Total Interest	$ 451,676	$ 909	$ 180	$ 452,765

Non-Obligation Debt

The County issues Single Family Mortgage Revenue Bonds to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single-family residences. Additionally, the County issues Multi-Family Mortgage Revenue Bonds to finance the construction of multi-family apartment projects in the County. These programs assist persons and families of low and moderate income within the County to afford the costs of decent, safe and sanitary housing. The bonds will be payable solely from and secured by a pledge of payment received on the acquired mortgage loans, certain insurance with respect thereto, and other monies pledged under the bond resolution. The bonds do not represent a liability of the County and, as such, do not appear in the accompanying basic financial statements.

The County acts as an agent for the property owners benefited by the projects financed from special assessment bond proceeds, in collecting the assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, if appropriate. Special assessment bonds $3,245 at June 30, 2004 do not represent a liability of the County and, as such, do not appear in the accompanying basic financial statements.

Discretely Presented Component Units

Long-term liability transactions for the FIRST 5 of San Bernardino for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Compensated Absences	$ 108	$ 125	$ 109	$ 124	$ 49

NOTE 12 – INTEREST RATE SWAP

(a) Medical Center Series 1998 A Certificates of Participation

Objective of the interest rate swap. As a means to lower financing costs, and to reduce the risks to the County associated with the fluctuation in market interest rates, the County entered into an interest rate swap in connection with the Medical Center Series 1998A Certificates of Participation (COP) in the amount of $176,510. The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed-rate of 4.1895 percent.

Terms. The COPs and the related swap agreement mature on August 1, 2026, and the swap's notional amount of $176,510 matches the $176,510 variable-rate COPs. The swap was effective at the same time the COPs were issued on October 22, 1998. Starting in fiscal year 2008-09, the notional value of the swap and the principal amount of the associate debt decline. Under the swap agreement, through August 1, 2005, the County pays Merrill Lynch a fixed rate of 4.1895 percent and Merrill Lynch pays the County an amount equal to the variable rate interest payable on the outstanding COPs. After August 1, 2005 the County pays Merrill Lynch Capital Services (MLCS), Inc. a fixed payment of 4.1895 percent and receives from Merrill

Lynch a variable payment computed as 73 percent of the monthly London Interbank Offered Rate (LIBOR). Conversely, the COP's variable-rate coupons have historically been similar to the Bond Market Association Municipal Swap Index (BMA).

Fair Value. Because interest rates have declined since execution of the swap, the swap had a negative fair value of $4,098 as of June 30, 2004. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the Medical Center variable-rate COPs adjust to changing interest rates, the COPs do not have a corresponding fair value decrease. The fair value was the quoted market price from Merrill Lynch & Co. at June 30, 2004.

Credit Risk. The swap counterparty was rated Aa3 by Moody's and A+ by Standard & Poor as of June 30, 2004. The swap agreement specifies that if the long-term senior unsecured debt rating of Merrill Lynch & Co. is withdrawn, suspended or falls below A- (Standard & Poor) or A3 (Moody's), a collateral agreement will be executed within 30 days or the swap agreement will terminate.

Basis Risk. The swap exposes the County to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the COPs. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized. As of June 30, 2004, the BMA rate was 1.05 percent, the actual variable interest rate was 1.02 percent and 73 percent of LIBOR was .9992 percent.

Termination Risk. The County or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the County if MLCS credit quality rating falls below A- as issued by Standard & Poor or A3 by Moody's. If the swap is terminated, the variable-rate COP would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the County would be liable to the MLCS for a payment equal to the swap's fair value.

Swap payments and associated debt. Using rates as of June 30, 2004, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rate remain the same for their term, were as follows. As rates vary, variable-rate COP interest payments and net swap payments will vary.

	Variable-Rate Bonds		Interest Rate	
Fiscal Year	Principal	Interest	Swaps, Net	Total
2004/05	$ -	$ 1,800	$ 5,594	$ 7,394
2005/06	-	1,800	5,594	7,394
2006/07	-	1,800	5,594	7,394
2007/08	-	1,800	5,594	7,394
2008/09	1,000	1,796	5,580	8,376
2009-2027	175,510	19,441	60,409	255,360
	$ 176,510	$ 28,437	$ 88,365	$ 293,312

(b) Pension Obligation Series 2004 C Bonds

Objective of the interest rate swap. As a means to lower financing costs, and to reduce the risks to the County associated with the fluctuation in market interest rates, the County entered into an interest rate swap in connection with the Pension Obligation Series 2004 C Bonds (POB) in the amount of $125,000. The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed-rate of 6.3820 percent.

Terms. The POBs and the related swap agreement mature on August 1, 2023, and the swap's notional amount of $125,000 matches the $125,000 variable-rate POBs. The swap was effective at the same time the POBs were issued on June 24, 2004. Starting in fiscal year 2019-20 the notional value of the swap and the principal amount of the associated debt decline by $25,000 per year until the debt is completely retired. Under the swap agreement, the County pays Goldman Sachs Mistsui Marine Derivative Products (GSMMDP) L.P. a fixed rate of 6.3820 percent and GSMMDP pays the County a variable rate computed as the monthly London Interbank Offered Rate (LIBOR), plus a LIBOR margin equal to 23 basis points (.23%)

Fair Value. As of June 30, 2004, the swap had a negative fair value of $4,315. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the variable-rate POBs adjust to changing interest rates, the POBs do not have a corresponding fair value decrease. The fair value was the quoted market price from GSMMDP at June 30, 2004.

Credit Risk. As of June 30, 2004, the County was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the County would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty was rated Aaa by Moody's and AA+ by Standard & Poor as of June 30, 2004. To mitigate the potential for credit risk, if the long-term senior unsecured debt rating of GSMMDP is withdrawn, suspended or falls below A (Standard & Poor) or A2 (Moody's), the fair value of the swap will be fully collateralized by the counterparty with U.S. Government securities. Collateral would be posted with a third-party custodian.

Termination Risk. The County or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the County if GSMMDP credit quality rating falls below A as issued by Standard & Poor or A2 by Moody's. If the swap is terminated, the variable-rate POB would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the County would be liable to the GSMMDP for a payment equal to the swap's fair value.

Swap payments and associated debt. Using rates as of June 30, 2004, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rate remain the same for their term, were as follows. As rates vary, variable-rate POB interest payments and net swap payments will vary.

	Variable-Rate Bonds		Interest Rate	
Fiscal Year	Principal	Interest	Swaps, Net	Total
2004/05	$ -	$ 1,998	$ 2,810	$ 4,808
2005/06	-	1,998	5,979	7,977
2006/07	-	1,998	5,979	7,977
2007/08	-	1,998	5,979	7,977
2008/09	-	1,998	5,979	7,977
2009-2027	125,000	24,983	74,739	224,722
	$ 125,000	$ 34,973	$ 101,465	$ 261,438

NOTE 13 – LEASES

Capital Leases

The County has entered into certain capital lease agreements under which the related equipment will become the property of the County when all terms of the lease agreements are met.

Equipment and related accumulated amortization under capital lease are as follows:

	Governmental Activities	Business-type Activities
Asset:		
Equipment	$ 9,215	$ 1,800
Less: Accumulated depreciation	3,937	360
Total	$ 5,278	$ 1,440

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004, were as follows:

Year Ending June 30:	Governmental Activities	Business-type Activities
2005	$ 1,839	$ 406
2006	1,364	406
2007	1,223	406
2008	994	405
2009	500	168
2010-2014	108	-
Total Minimum Lease Payments	6,028	1,791
Less: Amount Representing Interest	511	132
Present Value of Minimum Lease Payments	$ 5,517	$ 1,659

Operating Leases

The following is a schedule by years of future minimum rental payments, principally for the General Fund, required under operating leases entered into by the County that have initial or remaining non-cancelable lease term in excess of one year as of June 30, 2004:

Year Ending June 30,	
2005	$ 23,533
2006	18,713
2007	16,424
2008	13,788
2009	9,457
2010-2014	16,138
2015-2019	87
Total Minimum Payments	$ 98,140

The County incurred rental expenditures of $24,244, principally in the General Fund, for the year ending June 30, 2004.

NOTE 14 – COLLATERIZED FACILITIES

The following County Facilities have been pledged as collateral in certain County financing transactions:

Facilities	Beginning	Additions	Deletions	Ending
Foothill Law and Justice	$ 42,642	$ -	$ -	$ 42,642
Victorville Law Center	8,644			8,644
West Valley Detention Center	146,327			146,327
Courthouse & Annex	9,450			9,450
Mid-Valley Landfill	59,260			59,260
West Valley Juvenile Detention Center	5,077			5,077
Information Services Bldg	500			500
Central Jail	10,819			10,819
Offices and Bindery	4,247			4,247
Vehicle Services Garage	3,469			3,469
Coroner's Office	1,212			1,212
Fontana Government Center	566			566
Fontana Government Center	2,274			2,274
Arrowhead Regional Medical Center	490,481			490,481
Hall of Records (New)	12,666			12,666
Hall of Records (Old)	2,054			2,054
Glen Helen Pavilion Ampitheather	26,174			26,174
Civic Center	5,117			5,117
Sheriff's Admin Bldg	13,416			13,416
County Gov Center	25,711			25,711
	$ 870,106	$ -	$ -	$ 870,106

NOTE 15 – MEDICARE AND MEDI-CAL PROGRAMS

The Medical Center provides services to eligible patients under Medi-Cal and Medicare programs. For the years ended June 30, 2004 and 2003, the Medi-Cal program represented 46% and 45%, and the Medicare program represented approximately 11% and 12%, respectively, of the Medical Center's net patient service revenues. Medi-Cal inpatient services are reimbursed at contractually agreed-upon per diem rates and outpatient services are reimbursed under a schedule of maximum allowances. Medicare inpatient services are reimbursed based upon pre-established rates for diagnostic-related groups. Outpatient services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost-reimbursement methodology. Final reimbursement is determined as a result of audits by the intermediary of annual cost reports submitted by the Medical Center. Reports on the results of such audits have been received through June 30, 2003 for Medicare and Medi-Cal. Adjustments as a result of such audits are recorded in the year the amount can be determined.

NOTE 16 – CLOSURE AND POSTCLOSURE CARE COST

State Financial Assurance Mechanism regulations require landfill operators to set aside funds, or provide alternative funding mechanisms, to fund the closure and postclosure maintenance of landfills. The funding must be completed prior to the final date of closure. These regulations apply only to those landfills operating prior to 1989. The closure and postclosure care costs of other landfills not subject to these State regulations are funded separately in the Site Closure and Maintenance Fund.

Closure and postclosure care costs include, but are not limited to, such items as final cover, groundwater monitoring, well installations and landfill gas monitoring systems.

The twenty (20) landfills listed below (with their capacity used and estimated remaining lives) are those currently subject to the State regulations:

LANDFILL	**Capacity Used**	***YEARS*** **Remaining**	***LANDFILL***	**Capacity Used**	***YEARS*** **Remaining**
Apple Valley	33%	Inactive	Milliken	92%	Inactive
Baker	6%	Inactive	Morongo Valley	81%	Inactive
Barstow	55%	6	Needles	100%	Inactive
Big Bear	100%	Inactive	Newberry Springs	100%	Inactive
Colton	73%	3	Phelan	60%	Inactive
Hesperia	55%	Inactive	San Timoteo	52%	5
Landers	31%	17	Trona-Argus	18%	Inactive
Lenwood-Hinkley	6%	Inactive	Twentynine Palms	14%	Inactive
Lucerne Valley	100%	Inactive	Victorville	55%	5
Mid-Valley	84%	2	Yermo	70%	Inactive

The landfill closure and postclosure care cost estimates of $112,409 and $103,099, respectively, are based upon the most recently submitted Closure/Postclosure Maintenance Plan documents filed with the State and Federal permitting agencies. If, at some future date, these closure cost estimates are adjusted (due to changes in inflation, technology, regulations, etc.), the County is required to make corresponding changes in the amount of funds deposited for closure.

Each year a portion of each landfill's estimated closure and postclosure cost is recognized as an expense and liability based upon the amount of capacity used during the year. The Mid-Valley landfill Unit 3 Phase 2 liner construction project increased capacity by 1,486 tons. Solid Waste engineers estimated increased landfill capacity at Barstow, Colton, Landers, and Victorville by a total of 5,073 tons due to efficiency in operations (i.e., reduction of cover soil usage, and/or increase in compaction of the refuse) or greater than anticipated settlement. The Capacity Used percentages for these five landfills decreased, resulting in a recognized closure and postclosure expense and liability decrease of $19,439.

As of June 30, 2004, the cumulative liability recorded by the County based upon individual landfill capacity usage was $170,421. The remaining $45,283 of estimated closure and postclosure costs will be recorded and funded as landfill capacity is used. Closure and postclosure related expenditures of $48,001 have been paid which reduced the landfill closure and postclosure liability to $122,420 at June 30, 2004.

Current State regulations allow public agencies to demonstrate financial assurance for postclosure maintenance costs through a “pledge of revenue” mechanism. This mechanism allows agencies to pledge a reliable future revenue source to fund the required postclosure maintenance at each landfill site for thirty years after landfill closure. The County has pledged a portion of its future tipping fees and investment earnings from the Waste Systems Division enterprise funds to fund these costs.

NOTE 17 – RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2004.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2004, the County's annual pension cost of $540,106 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, Accounting for Pensions by State and Local Governmental Employers, for the year ended June 30, 2004, were as follows:

Annual Required Contribution (County fiscal year basis)	$	80,391
Interest On Pension Assets		(31,923)
Adjustment To The Annual Required Contribution		42,438
Annual Pension Cost		90,906
Annual Contributions Made		540,106
Increase/(Decrease) in Pension Assets		449,200
Pension Asset, Beginning of Year (As Restated)		399,038
Pension Asset, End of Year	$	848,238

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Pension Cost SBCERA	Annual Pension Cost County	Percentage Contributed
2002	$ 69,245	$ 61,274	100%
2003	68,361	59,673	100%
2004	652,325	540,106	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of $420,527. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was $386,266. The current amount outstanding at June 30, 2004 is $437,820 (see Note 11).

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of $189,070, $149,825, and $125,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the S.B.C.E.R.A.

NOTE 18 – LEASE/LEASEBACK

In May 1997, the County entered into a lease agreement whereby seven separate County facilities, valued at a total of approximately $146 million, were leased to a financing institution. The County simultaneously entered into a sublease agreement to lease the buildings back, and received a prepayment of $96.2 million from the financing institution, as the investor parent. The County then deposited $87.6 million with the defeasance bank. After transaction expenses of $1 million, the net benefit to the County was $7.6 million. The deposit amount provides payments equal to the County's obligation under the sublease and purchase option. As a result, obligations under this lease/leaseback arrangement are considered to be economically, although not legally defeased. Therefore, the trust assets and the related debt have been excluded from the County's financial statements.

The term of the full lease with the financing institution ends in 2034. However, the term of the agreement with the defeasance bank ends in 2014, at which time the County may either exercise the early purchase option or renegotiate the agreement to the end of the full lease term. The decision will then be based on the prevailing interest rates at the time.

NOTE 19 – COMMITMENTS AND CONTINGENCIES

(a) The County has been named as a defendant in numerous lawsuits and claims arising in the normal course of operations. In the aggregate, these claims seek monetary damages in significant amounts. To the extent the outcome of such litigation has been determined to result in probable loss to the County, such loss has been accrued in the accompanying basic financial statements. In the opinion of County management and County Counsel, the ultimate outcome of the remaining claims cannot be determined at this time.

(b) The County recognizes as revenue, grant monies received as reimbursement for costs incurred in certain Federal and State programs it administers. Although the County's grant programs are being audited through June 30, 2004 in accordance with the provisions of the Single Audit Act of 1996, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

(c) During fiscal year 2002, the State of California's error rate for the food-stamp program exceeded the tolerance thresholds established by the Federal Government. As a result, the State has been sanctioned for amounts in excess of $177,000 pertaining to the Federal non-compliance. The State is attempting to pass-through sanctions to the County in excess of $7,300.

(d) In fiscal year 1996, the Board of Supervisors approved a reimbursement agreement ("the agreement") whereby for land parcels transferred in 1983, the Waste Systems Division agreed to reimburse the General Fund for the then fair market value of the land approximating $35,272. The terms of the agreement stipulated that the annual reimbursement will at a rate of $5.00 per ton plus 7% per annum, payable from operational cost savings. The estimated period of repayment is approximately 11 years with final payment by June 2006. During the fiscal year, the Waste Systems Division transferred approximately $5,000 as a repayment under the terms of the agreement. As of June 30, 2004, the total balance outstanding under the agreement was $10,174.

(e) Beginning in 2002 the SWMD commenced an aggressive investigation of perchlorate impacts to soil and groundwater in the vicinity of the Mid Valley Sanitary Landfill (MVSL). The work consisted of installing over twenty temporary wells, seven permanent groundwater-monitoring wells, and the collection of soil and groundwater samples for analysis and groundwater modeling. This work was summarized in a report dated October 7, 2002, and was submitted to the Regional Water Quality Control Board (RWQCB) for their review.

On September 26, 2002, the RWQCB issued a directive to the SWMD to submit a Work Plan and conduct additional perchlorate investigations in the vicinity of the MVSL. The directive required the SWMD to submit the Work Plan by October 26, 2002. The SWMD requested and was granted an extension to the submittal deadline from October 26, 2002 to November 15, 2002. On November 15, 2002, SWMD prepared and submitted to the RWQCB a work plan for additional soil and groundwater investigation of perchlorate in the vicinity of the MVSL. Subsequently, the RWQCB adopted and issued Cleanup and Abatement Order (CAO) No.R8-2003-0013 to the County. The RWQCB approved SWMDs work plan on January 30, 2003.

In accordance with Item 2 of CAO No.R8-2003-0013, the RWQCB directed the County to submit a work plan for the installation of at least five (5) additional monitoring wells at the leading edge of the plume and along the easterly boundary of the plume. In addition, the RWQCB also directed the County to submit a work plan to develop a conceptual remedial action plan. The SWMD submitted the work plans to the RWQCB on February 17, 2004 and February 26, 2004. Per their letter dated March 25, 2004, the RWQCB approved the work plans as submitted.

The drilling program within the RWQCB-approved work plan consists of the installation of up to thirty (30) temporary and six (6) permanent groundwater monitoring wells; the collection of groundwater samples; the setting of pumps within three installed wells to be used for hydraulic aquifer testing; the containment of well development water; and securing all necessary permits. Installation of the monitoring wells commenced on May 1, 2004 and was completed by the end of August 2004.

Cleanup and Abatement Order No. R8-2003-0013 was amended on September 17, 2004 that states that the County shall take all actions necessary to provide replacement water that is non-detectable for perchlorate to the City of Rialto by April 1, 2005, to replace the water currently extracted from Rialto Well No. 3.

Fiscal Year 2002/2003 unbudgeted costs totaling $1,816 were expended for the perchlorate investigation. For FY 2003/2004 estimated expenditures total $1,664. For FY 2004/2005 budgeted expenditures are $4,193.

(f) The County has entered into several contractual agreements for the construction and/or improvement of several capital projects. These commitments include $5,408 for various projects of the Capital Improvements Fund.

(g) On November 25, 2003 the board, acting as the governing body of the County Service Area 70, Improvement Zone J (CSA 70 J) entered into a $2,400 loan agreement with the California Infrastructure and Economic Development Bank (CIEDB) to fund water system improvements in CSA 70 J. On March 18, 2004 CIEDB issued $2,400 in Infrastructure State Revolving Fund Revenue Bonds on behalf of the county. As of June 30, 2004 no funds have been drawn down from these proceeds.

NOTE 20 – SUBSEQUENT EVENTS

(a) In July 2004, the County issued Tax and Revenue Anticipation Notes ("TRANS") totaling $145,000 at an interest rate of 3.00%. This issue followed the prior year issued TRANS of $140,000, which was repaid July 1, 2004. The proceeds of the TRANS are intended to provide financing for 2004-05 General Fund expenditures, including current expenditures, capital expenditures and the discharge of other obligations or indebtedness of the County. The TRANS are secured by a pledge of various monthly amounts of property taxes on the secured roll.

Beginning Balance July 1, 2003	Additions	Reductions	Ending Balance June 30, 2004
$ 170,000	140,000	170,000	$ 140,000

(b) Federal and State disasters were declared for the fires that began in October 2003. The County has and will be incurring significant costs related to these disasters named the Grand Prix and Old fires. It is anticipated that the Federal Emergency Management Agency, the State Office of Emergency Services and other funding sources will reimburse eligible costs. The total due from the funding sources for the fire disasters as of June 30, 2004 is $8.0 million. The total expected eligible costs for the County will be between $14.0 and $16.5 million.

(c) A State disaster is anticipated to be declared for the flooding that began on October 20, 2004. The County has and will be incurring costs related to this disaster. It is anticipated that the Federal Emergency Management Agency and the State Office of Emergency Services will reimburse most of the eligible costs. No estimates of the total cost could be determined at the date of this report.

(d) Historically, approximately three-fourths of Vehicle License Fee (VLF) revenue was allocated to cities and counties as general purpose financing. The remaining funds were allocated to counties to pay for “realignment” Health and Social Services programs. From Fiscal Year 1998-1999 to the present, there has been a 67.5% reduction in the actual VLF charged to vehicle owners. When the State acted to reduce the fees, counties and cities and not the State would have felt the potential impact. However, since the VLF reductions were first enacted, the State has made up the revenue impact of the VLF rate reductions with State general fund revenues (the “VLF backfill”) and VLF revenue allocations to counties and cities have continued as if there was no reduction.

For the period of June 20, 2003 to October 31, 2003, no VLF backfill payments were made by the State and the County lost approximately $37.6 million in discretionary VLF revenues, of which $2.2 million is related to fiscal year 2002-2003. Part of this loss was due to a reduction in the share of VLF allocated as discretionary revenue, from 75.67% to 71.93%, and a corresponding increase in the share allocated to realignment programs to eliminate any loss to these programs caused by the temporary elimination of the VLF backfill. This $37.6 million discretionary revenue loss is considered a loan to the State, with the State budget specifying that this loan will be repaid by August 2006.

In the 2004-05 State Budget the VLF Backfill is eliminated. Counties and cities will instead receive increased property tax revenues to compensate for the reduction in VLF. The 2004-05 State Budget also includes a provision that requires the County to reduce its share of property taxes for fiscal years 2004-05 and 2005-06 by $16.4 million each year.